

LITCHFIELD DISTRICT LIBRARY

AUDIT REPORT

MARCH 31, 2006

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>LITCHFIELD DISTRICT LIBRARY</b>	County <b>HILLSDALE</b>
Fiscal Year End <b>3-31-06</b>	Opinion Date <b>11-30-06</b>	Date Audit Report Submitted to State <b>11-30-06</b>	

We affirm that:

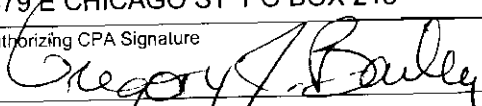
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>BAILEY, HODSHIRE &amp; COMPANY, PC</b>		Telephone Number <b>(517) 849-2410</b>	
Street Address <b>479 E CHICAGO ST PO BOX 215</b>		City <b>JONESVILLE</b>	State <b>MI</b>
Zip <b>49250</b>		License Number <b>1101022915</b>	
Authorizing CPA Signature 		Printed Name <b>GREGORY J BAILEY</b>	

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INDEPENDENT AUDITOR'S REPORT

To the Library Board  
Litchfield District Library  
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Litchfield District Library, Hillsdale County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Litchfield District Library as of March 31, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended and interpreted, as of March 31, 2006.

Library Board  
Litchfield District Library  
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The management's discussion and analysis and budgetary comparison information on pages 3 to 5 and page 14, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, however we did not audit the information and express no opinion on it.

*Bailey, Hodshire & Company, P.C.*

Jonesville, Michigan  
November 30, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**NEW FINANCIAL REPORTING**

As management of the Litchfield District Library, Litchfield, Michigan, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year ended March 31, 2006. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Library. Starting with fiscal year 2005-06, the Litchfield District Library, (the "Library") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended March 31, 2006 from the point of view of the Library's administration. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

**FINANCIAL HIGHLIGHTS**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$147,969 (net assets) at the government-wide level.
- The Library's total net assets increased by \$4,199, as a result of current year activity at the government wide level.
- Total governmental fund balance increased by \$4,524 in the current year at the fund level.
- At the close of the current fiscal year, unreserved fund balance of the general fund was \$59,562 or 90% of total general fund expenditures.

**USING THIS ANNUAL REPORT**

The basic financial statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

## Litchfield District Library

### **Management's Discussion and Analysis Year Ended March 31, 2006**

- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The government wide financial statement columns provide both long-term and short-term information about the Library's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The *governmental activities* financial statements are designed to provide readers with a broad view of the Library's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the Library's finances and whether the full cost of government services have been funded.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information presenting budgetary comparisons for the Library's General Fund.

#### CONDENSED FINANCIAL INFORMATION

The following tables show, in a condensed format, the net assets as of March 31, 2006 and the changes in the net assets during the current year. A comparative analysis of data will be presented in future years when the information is available.

TABLE 1 - NET ASSETS

Assets	
Current Assets	\$ 66,768
Capital Assets, Net	<u>84,980</u>
Total Assets	<u>\$ 151,748</u>
Liabilities	
	<u>\$ 3,779</u>
Net Assets	
Invested in Capital Assets	\$ 84,980
Restricted for Building Purchase	3,427
Unrestricted	<u>59,562</u>
Total Net Assets	<u>\$ 147,969</u>

TABLE 2 - CHANGE IN NET ASSETS

Revenue	\$ 70,542
Expenses - Library Services	<u>(66,343)</u>
Change in Net Assets	<u>\$ 4,199</u>



## Litchfield District Library

### **Management's Discussion and Analysis Year Ended March 31, 2006**

The Library's total net assets were \$147,969 at March 31, 2006. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$59,562 at the end of the fiscal year. The net assets invested in capital assets were \$84,980. The remaining balance (\$3,427) was restricted for the eventual purchase or construction of a new library building.

#### GOVERNMENTAL ACTIVITIES

The Library's governmental revenues totaled \$ 70,542 with the greatest revenue source being property taxes (74%). Penal fines make up approximately 13% of total governmental revenue. The Library incurred expenses of \$66,343 during the year. The majority of governmental expense is associated with the staffing of the Library, and depreciation expense on capital assets. Wages represented 43% of the Library's total expenses and depreciation represented 20%.

#### THE LIBRARY'S FUNDS

The Library's major fund consists solely of the General Fund. An analysis of the General Fund can be found in the first column on pages 6 and 7. The fund column provides detailed information about the most significant fund, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities. The Library did not have any nonmajor funds for the fiscal year ended March 31, 2006.

#### BUDGETARY HIGHLIGHTS

The general fund budget was amended during the year to reflect unexpected increases and decreases in various expense categories. Financial information was not provided to the Library Board during the last six months of the 2005-06 fiscal year. Absent this data, the Library Board was unable to make the remaining line items transfers and budget amendments causing expenditures in excess of budgeted amounts in seven line items totaling \$4,459. The Library hired a new bookkeeper April 1, 2006 who assists in monitoring financial data closely to prevent a similar situation in the future.

#### FACTORS BEARING ON THE FUTURE

The Library Board analyzed the existing facility space and projected growth of the population served over the next 20 years to determine the need for a 3,100 - 4,000 square foot facility. The current facility offers approximately 1,200 square feet of space. Donations are being accepted to help with the cost to create more facility space. The Library Board is reviewing existing buildings vs. new build possibility to determine the cost of the project. The facility space restraint issue is expected to be resolved within the next two years.

Replacements and updates to public and personnel computer equipment are planned for the 2006-07 fiscal year.

Interest received on investments is expected to increase as a result of utilizing accounts with higher interest rates.

#### CONTRACTING THE LIBRARY'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Secretary or Treasurer of the Litchfield District Library Board of Directors.

## BASIC FINANCIAL STATEMENTS

LITCHFIELD DISTRICT LIBRARY  
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS  
MARCH 31, 2006

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Net Assets</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 39,870	\$	\$ 39,870
Taxes Receivable	26,898		26,898
Fixed Assets, net	<u>0</u>	<u>84,980</u>	<u>84,980</u>
Total Assets	<u>\$ 66,768</u>	<u>\$ 84,980</u>	<u>\$ 151,748</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	<u>\$ 3,779</u>	\$	<u>\$ 3,779</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balance			
Reserved for Building	\$ 3,427	\$ (3,427)	
Unreserved	<u>59,562</u>	<u>(59,562)</u>	
Total Fund Balance	<u>\$ 62,989</u>	<u>\$ (62,989)</u>	
Total Liabilities and Fund Balance	<u>\$ 66,768</u>		
Net Assets			
Invested in Capital Assets - Net of Related Debt		\$ 84,980	\$ 84,980
Restricted for Building		3,427	3,427
Unrestricted		<u>59,562</u>	<u>59,562</u>
Total Net Assets		<u>\$ 147,969</u>	<u>\$ 147,969</u>
Total Liabilities and Net Assets			<u>\$ 151,748</u>

The accompanying notes are an integral part of this statement.

**LITCHFIELD DISTRICT LIBRARY**  
**STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES**  
**MARCH 31, 2006**

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Activities</u>
<b>REVENUE</b>			
Property Taxes	\$ 52,063	\$	\$ 52,063
Penal Fines	9,145		9,145
State Aid	1,929		1,929
Municipal Contributions	200		200
Interest on Investments	270		270
Gifts & Memorials	2,854		2,854
Miscellaneous	<u>4,081</u>	<u>          </u>	<u>4,081</u>
Total Revenue	<u>\$ 70,542</u>	<u>\$       </u>	<u>\$ 70,542</u>
<b>EXPENDITURES</b>			
Wages	\$ 28,857	\$	\$ 28,857
Payroll Taxes	2,270		2,270
Insurance	1,122		1,122
Utilities	3,349		3,349
Internet	825		825
Rent	4,200		4,200
Office Supplies	1,116		1,116
Cleaning Supplies	93		93
Cleaning Services	2,312		2,312
Professional Fees	1,771		1,771
Repairs	1,295		1,295
Woodlands Cooperative	1,464		1,464
Mileage Reimbursed	770		770
Advertising	440		440
Miscellaneous Expense	3,158		3,158
Capital Outlay - Circulation Materials	10,356	(10,356)	0
Capital Outlay - Other	2,620	(2,620)	0
Depreciation	<u>0</u>	<u>13,301</u>	<u>13,301</u>
Total Expenditures	<u>\$ 66,018</u>	<u>\$    325</u>	<u>\$ 66,343</u>
Excess of Revenue Over (Under)			
Expenditures/Change in Net Assets	\$ 4,524	\$ (325)	\$ 4,199
Fund Balance/Net Assets - Beginning	<u>58,465</u>	<u>85,305</u>	<u>143,770</u>
Fund Balance/Net Assets - Ending	<u>\$ 62,989</u>	<u>\$ 84,980</u>	<u>\$ 147,969</u>

The accompanying notes are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Litchfield District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

The Library has implemented the provision of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

**Financial Reporting Entity**

The Litchfield District Library is located in the City of Litchfield, Hillsdale County, Michigan, and is governed by a six-member board. Three members are appointed by the City of Litchfield and three are appointed by Litchfield Township. The financial support is provided primarily through a district-wide tax levy and Hillsdale County penal fines, with additional support from municipal contributions, State Aid, and charitable donations/memorials. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

**Government-Wide Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**LITCHFIELD DISTRICT LIBRARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

**Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, property taxes and the municipal contributions are susceptible to accrual. All other revenue items are considered to be available only when the cash is received by the Library.

**Financial Statement Presentation**

The Library reports the following major governmental fund: the General Fund is the Library's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

**Capital Assets** - Capital assets are defined by the Library as assets with a cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Leasehold improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Leasehold Improvements	10 years
Library books, periodicals, etc.	15 years
Furniture and Fixtures	10 years
Office Equipment	7 years
Computer Equipment	5 years

**Change in Accounting** - During the current year, the Library adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the Library's activities. GASB Statement No. 34 also requires fixed assets to be recorded with related depreciation.

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets, Budgetary Accounting and Budget Basis of Accounting** - Budgets are adopted for all governmental fund types, as required by law. Budgets for the general fund are adopted at the line item level and reported in the budgetary comparison schedule at this level. The Library uses the same basis of accounting for budgeting purposes as for financial statement presentation.

**Encumbrance Accounting** - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by Litchfield District Library.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Library Board at the line-item level. Any budgetary modifications may only be made by resolution of the Library Board. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budget as reflected in the financial statements:

- 1) Prior to March 31, a public hearing is conducted on the proposed budget to obtain taxpayer comments.
- 2) Prior to March 31, the budget is legally enacted through passage of a resolution.
- 3) The Library Board is authorized to transfer budgeted amounts between line items.
- 4) During the year the budget is monitored, and amendments to are made when necessary.

During the year, the following accounts had expenditures in excess of budgeted amounts, which is a violation of State of Michigan budgeting laws:

<u>Description</u>	<u>Amount of</u>		
	<u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Utilities	3,200	3,349	149
Internet	811	825	14
Cleaning Services	2,035	2,312	277
Woodlands Cooperative	1,000	1,464	364
Miscellaneous	1,586	3,158	1,572
Capital Outlay - Circulation Materials	8,500	10,356	1,856
Capital Outlay - Other	2,393	2,620	227

**NOTE 3 - CASH AND INVESTMENTS**

State of Michigan laws authorize the Library to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or



LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 3 - CASH AND INVESTMENTS (continued)**

Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Library's investment policy puts no further limits on its investment choices. As of March 31, 2006, the Library's deposits and investments are in accordance with statutory authority.

Following are the components of the Library's bank deposits at March 31, 2006:

Checking account	\$ 7,294
Savings accounts	<u>32,551</u>
Total	<u>\$ 39,845</u>

*Interest Rate Risk* - The Library manages its exposure to declines in fair values by limiting deposits to checking and savings accounts.

*Credit Risk* - The Library minimizes credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting deposits to checking and savings accounts.

*Concentration of Credit Risk* - The Library does not have limits on the amount the Library may deposit with any one issuer.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). As of March 31, 2006, the carrying amount of the Library's deposits was \$39,845 and the bank balance was \$43,378. The entire amount was covered by federal depository insurance.

*Foreign Currency Risk* - The Library is not authorized to invest in investments which have this type of risk.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended March 31, 2006, was as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>March 31, 2006</u>
Books, Audios, Videos	\$ 263,330	\$ 10,356	\$ 0	\$ 273,686
Furniture and Equipment	28,293	2,620	0	30,913
Leasehold Improvements	<u>9,873</u>	<u>0</u>	<u>0</u>	<u>9,873</u>
Total Capital Assets	\$ 301,496	\$ 12,976	\$ 0	\$ 314,472
Less: Accum. Depreciation	<u>(216,191)</u>	<u>(13,301)</u>	<u>0</u>	<u>(229,492)</u>
Net Capital Assets	<u>\$ 85,305</u>	<u>\$ (325)</u>	<u>\$ 0</u>	<u>\$ 84,980</u>

Depreciation expense for the fiscal year ended March 31, 2006 was \$13,301.

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 5 - LEASE OF FACILITIES**

The Library utilizes space in a building in downtown Litchfield owned by a private individual. Rent is \$350 per month.

**NOTE 6 - UNEMPLOYMENT TAXES**

The Library is a reimbursing employer to the Michigan Employment Security Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities (if any) have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

**NOTE 7 - RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance for claims relating to general liability, physical damage (equipment and building contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverages and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

**NOTE 8 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. The difference primarily results from the long-term focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

<b>Total Fund Balance - Modified Accrual Basis</b>	\$ 62,989
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>84,980</u>
<b>Net Assets of General Fund - Full Accrual Basis</b>	<u>\$ 147,969</u>
 <b>Net Change in Fund Balances - Modified Accrual Basis</b>	 \$ 4,524
Amounts reported in the statement of net activities are different because:	
Capital costs are allocated over their estimated useful lives as depreciation	
Capital outlay	12,976
Depreciation expense	<u>(13,301)</u>
<b>Change in Net Assets of General Fund - Full Accrual Basis</b>	 <u>\$ 4,199</u>

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**NOTE 9 - RESTATEMENTS**

As of and for the year ended March 31, 2006, the Library implemented the following Governmental Accounting Standards Board pronouncements:

Statements

No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*

No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*

No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*

No. 38 - *Certain Financial Statement Disclosures*

Interpretations

No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the year ended March 31, 2006, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balance of General Fund as of March 31, 2005	\$ 58,465
Add: capital assets, including land and buildings as of March 31, 2005	301,496
Deduct: accumulated depreciation as of March 31, 2005, on the above assets	<u>(216,191)</u>
General Fund net assets, restated, as of March 31, 2005	<u>\$ 143,770</u>

## REQUIRED SUPPLEMENTARY INFORMATION

LITCHFIELD DISTRICT LIBRARY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
MARCH 31, 2006

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Over (Under) Amended <u>Budget</u>
Beginning of Year Fund Balance	\$ 34,132	\$ 34,132	\$ 58,465	\$ 24,333
Resources (Inflows)				
Property Taxes	45,100	45,797	52,063	6,266
Penal Fines	10,000	10,000	9,145	(855)
State Aid	400	400	1,929	1,529
Municipal Contributions	200	400	200	(200)
Interest on Investments	230	307	270	(37)
Gifts & Memorials	1,000	0	2,854	2,854
Miscellaneous	<u>12,400</u>	<u>12,426</u>	<u>4,081</u>	<u>(8,345)</u>
Amounts Available for Appropriation	<u>\$ 103,462</u>	<u>\$ 103,462</u>	<u>\$ 129,007</u>	<u>\$ 25,545</u>
Charges to Appropriations (Outflows)				
Wages	\$ 36,000	\$ 32,296	\$ 28,857	\$ (3,439)
Payroll Taxes	2,800	2,800	2,270	(530)
Insurance	2,000	2,000	1,122	(878)
Utilities	3,200	3,200	3,349	149
Internet	700	811	825	14
Rent	4,200	4,200	4,200	0
Office Supplies	1,500	1,559	1,116	(443)
Cleaning Supplies	100	100	93	(7)
Cleaning Services	1,680	2,035	2,312	277
Professional Fees	3,300	3,300	1,771	(1,529)
Repairs	1,650	1,650	1,295	(355)
Woodlands Cooperative	1,100	1,100	1,464	364
Mileage Reimbursement	1,000	1,000	770	(230)
Advertising	800	800	440	(360)
Miscellaneous	800	1,586	3,158	1,572
Capital Outlay - Circulation Materials	8,500	8,500	10,356	1,856
Capital Outlay - Other	<u>0</u>	<u>2,393</u>	<u>2,620</u>	<u>227</u>
Total Charges to Appropriations	<u>\$ 69,330</u>	<u>\$ 69,330</u>	<u>\$ 66,018</u>	<u>\$ (3,312)</u>
Budgetary Fund Balances - March 31, 2006	<u>\$ 34,132</u>	<u>\$ 34,132</u>	<u>\$ 62,989</u>	<u>\$ 28,857</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire  
& Company, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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November 30, 2006

Library Board  
Litchfield District Library  
108 N. Chicago St.  
Litchfield, MI 49252


To the Members of the Board:

In connection with our audit of the Litchfield District Library for the year ended March 31, 2006, we would like to make the following comments and recommendations:

1. When the decision is made to "contract out" the Treasurer's duties, the Board should continue to monitor the quality and timeliness of the work being performed. Our audit procedures found evidence of late filing and late payment of payroll taxes, late payment of vendor invoices, and a general lack of organization in the accounting records.
2. We noted that Litchfield Township is not making timely distributions of property taxes collected during the months of December through March. This is not in accordance with State requirements, and should be brought to the Township's attention.
3. The adoption of Governmental Accounting Standards Board (GASB) Statement No. 34 requires the inclusion of fixed assets and related depreciation expense in the government-wide financial statements. We have discussed a "capitalization policy" with management, and we recommend that a formal policy be adopted by the Board.

If we can be of assistance in regard to these recommendations, please contact our office.

Respectfully,

  
Bailey, Hodshire & Company, P.C.  
Certified Public Accountants